136. Interested parties should discuss the relative merits of adopting a per-line formula, adopting a per-minute formula, retaining the balanced 50-50 approach, or adopting some other common line formula. Parties should recommend specific common line formulas. Parties should also specifically address how their proposals avoid the problems of accounting for interstate demand growth, discussed above, if a TFP method is used for establishing the X-Factor.

Issue 6c: Should carrier common line rates be based on historical rather than forecasted data for end user common line revenues?

137. The maximum CCL rate is a function of the common line PCI, the growth in minutes of use per line, expected subscriber line charge (SLC) revenue, base period carrier common line minutes of use, and the existing maximum allowable CCL rate. The expected SLC revenue, however, is calculated based on forecasts of revenues from subscriber lines. If we retain a separate common line formula, would the accuracy in estimating the maximum CCL rate be improved if historical data were used to estimate SLC revenues? We invite parties to comment on the elimination of forecasts of lines and costs for determining SLC revenues in the maximum CCL rate calculation.

D. Exogenous Costs

1. Background

138. In the *LEC Price Cap Order*, the Commission determined that certain costs incurred by LECs that are caused by administrative, legislative or judicial requirements beyond their control, and not otherwise reflected in the PCI, should result in an adjustment to the PCI to ensure that the price cap formula does not lead to unreasonably high or unreasonably low rates.[162] Our rules currently list eight cost changes that may be afforded exogenous treatment under the appropriate conditions.[163] In the *First Report and Order*, we modified our exogenous cost rules to deny exogenous treatment for accounting rule changes that do not affect a carrier's discounted cash flow.[164] Further, we tentatively concluded in the *First Report and Order* that it might be possible to design an X-Factor which would recognize almost all of the costs for which exogenous treatment would now be accorded. As a result, requests for exogenous cost treatment would be limited to cost changes which are truly unique to individual LECs.[165]

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[162] *LEC Price Cap Order*, 5 FCC Rcd at 6807.

[163] Section 61.45(d)(1) of the Commission's Rules, 47 C.F.R. § 61.45(d)(1).

[164] *First Report and Order*, paras. 293-302.

[165] *First Report and Order*, para. 292.

2. Issues

139. In light of the above discussion, we seek comment on the following issues:

Issue 7a: Is it feasible to fashion an X-Factor that will routinely include costs currently classified as exogenous and exclude costs that the Commission has determined are not exogenous?

140. In particular, we seek comment on which of the cost changes currently eligible for exogenous treatment under the Commission's rules would be reflected in a TFP-based X-Factor. We also seek comment on which of the exogenous cost categories might be reflected in each of the alternative X-Factor methodologies on which we solicited comment above.

Issue 7b: Would it be reasonable to limit exogenous cost treatment to changes that result in a jurisdictional cost shift?

141. MCI suggested in the first phase of this proceeding that we should limit exogenous cost treatment to Commission-ordered changes that result in shifting costs between the interstate and intrastate jurisdictions, or between regulated and non-regulated accounts.[166] We decided not to adopt MCI's suggestion for the interim period, but said we would consider it here.[167] Thus, we ask for comment on this suggestion.

E. Rescheduling of Performance Review

142. As we discussed above, we determined in the *First Report and Order* that incorporating industry-wide productivity growth into the X-Factor automatically through use of a moving average might eliminate the need for "frequent" performance reviews.[168] Regardless of whether a performance review may be necessary in the future to reexamine the X-Factor, it may be desirable to schedule a performance review to examine other aspects of the price cap plan, *e.g.*, whether the long-term price cap plan should be modified to encourage LECs to make appropriate responses to changes in competitive conditions in their region. Accordingly, we invite comment on the following issue:

Issue 8: Regardless of whether we establish a moving average mechanism to incorporate automatically changes in unit costs into the X-Factor, would it be desirable to schedule a LEC price cap performance review, and, if so, when?

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[166] *First Report and Order*, para. 287.

[167] *First Report and Order*, para. 303.

[168] *First Report and Order*, para. 153.

143. Also, we invite comment on which, if any, aspects of the long-term price cap plan should be included or excluded from the review.

F. Paperwork Reduction Act

144. Pursuant to Section 3506(c)(2)(A) of the Paperwork Reduction Act (PRA), we are required to solicit comment through this further notice of proposed rulemaking to:

(i) evaluate whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility;
(ii) evaluate the accuracy of the agency's estimate of the burden of the proposed collection of information;
(iii) enhance the quality, utility, and clarity of the information to be collected; and
(iv) minimize the burden of the collection of information on those who are to respond, including through the use of automated collection techniques or other forms of information technology.

145. Accordingly, we seek comment on these issues.

IV. PROCEDURAL MATTERS

146. This review will be conducted as a non-restricted notice and comment rulemaking. *See* 47 C.F.R. Section 1.399 *et seq.*

147. All relevant and timely comments and reply comments will be considered by this Commission. In reaching our decision, this Commission may take into account information and ideas not contained in the comments, provided that such information or a writing containing the nature and source of such information is placed in the public file, and provided that the fact of this Commission's reliance on such information is noted in the Order.

148. We direct all parties submitting studies to the Commission to provide all supporting data and workpapers on which those studies rely. This material must be provided both on paper and on computer disk. We require parties submitting spreadsheets to do so in Lotus 1-2-3 DOS format.

A. Regulatory Flexibility Act

149. We certify that the Regulatory Flexibility Act of 1980 does not apply to this rulemaking proceeding because if the proposed rule amendments are promulgated, there will not be a significant economic impact on a substantial number of small business entities, as defined by Section 601(3) of the Regulatory Flexibility Act. Carriers subject to price cap regulation for local exchange access services affected by the rule amendments under consideration generally

are large corporations or affiliates of such corporations. The Secretary shall send a copy of this Further Notice of Proposed Rule Making, including the certification, to the Chief Counsel for Advocacy of the Small Business Administration in accordance with paragraph 603(a) of the Regulatory Flexibility Act, Pub. L. No. 96-354, 94 Stat. 1164, 5 U.S.C. Section 601 *et seq.* (1981).

B. *Ex Parte* Rules - Non-Restricted Proceeding

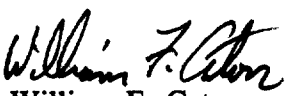
150. This is a non-restricted notice and comment rulemaking proceeding. *Ex Parte* presentations are permitted, except during the Sunshine Agenda period, provided they are disclosed as provided in Commission rules. *See generally* 47 C.F.R. Sections 1.1202, 1.1203, and 1.1206(a).

V. ORDERING CLAUSES

151. Accordingly, IT IS ORDERED that NOTICE IS HEREBY GIVEN OF the rulemaking described above and that COMMENT IS SOUGHT on these issues.

152, IT IS FURTHER ORDERED that pursuant to applicable procedures set forth in Section 1.399 and 1.411 *et seq.* of the Commission's Rules, 47 C.F.R. Sections 1.399, 1.411 *et seq.*, comments SHALL BE FILED with the Secretary, Federal Communications Commission, Washington D.C. 20554 no later November 27, 1995. Reply comments SHALL BE FILED no later than December 27, 1995. To file formally in this proceeding, participants must file an original and four copies of all comments, reply comments, and supporting comments. If participants want each Commissioner to receive a personal copy of their comments, an original plus nine copies must be filed. In addition, parties should file two copies of any such pleading with the Tariff Division, Common Carrier Bureau, Room 518, 1919 M Street, N.W., Washington, D.C. 20554, and one copy of any pleadings should be submitted on computer disk to the Industry Analysis Division, Common Carrier Bureau, Room 534, 1919 M Street, N.W., Washington, D.C. 20554. Comments and reply comments will be available for public inspection during regular business hours in the FCC Reference Center, Room 239, 1919 M Street, N.W., Washington D.C. 20554.

FEDERAL COMMUNICATIONS COMMISSION



William F. Caton
Acting Secretary

Attachment A

Simple TFP Calculation

Assume that capital is the only factor of production.
The production function is Q = A(t) * F(K(t)), where Q is ouput. A(t) is an index of technical change. We measure the rate of growth of A(t).

In the benchmark period, K(0) is 1,000,000

Depreciation	11.00%			
Effective Income Tax Rate is		35.0%	35.0%	
	Period -1	Base Period	Period 1	
Revenue		$264,038	$276,229	
Price index		1	1.004	
OUTPUT	Period -1	Base Period	Period 1	
Deflated rev/quantity index		264,038	275,128	Step 1. Quantity index is revenue deflated by output price index.
Real Growth			4.11%	Step 2. Real growth is the log of the ratio of the quantity index in period (1) to the quantity index in period (0)
Output index		1.0000	1.0420	Step 3. In period (0), the output index is 1, and, in period (1), the index is 1*exp(0.0411)
Output Index % Change			4.11%	Step 4. In period (1), the rate of growth of the output index is ln(output index(1)/ output index(0))
INPUT				
Current Dollar Investment	Period -1	Base Period	Period 1	
Plant Additions		$125,000	$125,000	
TPI: Telephone Plant Index	1.020408	1	0.98	
Constant Dollar investment		125,000	127,551	Step 5. Constant dollar investment, I(t), is current dollar investment deflated by TPI.
Capital	Period -1	Base Period	Period 1	
Depreciation	108,146	110,000		
Capital Stock Quantity: K(t)	983,146	1,000,000	1,017,551	Step 6. Perpertual Inventory Model. K(t) = (1-.11) K(t-1) + I(t). Benchmark K(0) = 1,000,000
Capital Input Qantity		1	1.017143	Step 7. In period (0), capital input quantity is capital stock quantity in period (-1) divided by the capital stock quantity on period (-1). In period (1), the capital input quantity is the capital stock quantity in period (0) divided by the capital stock quantity in period (-1)

Capital Service Flow (Implicit Rental Payments)

	Period -1	Base Period	Period 1
Investment Tax Credit Rate		0	0
Capital Input Rate (Property Tax)		0	0
Effective Income Tax Rate		35.00%	35.00%
Cost of Capital: r(t)		11.25%	11.25%
Present Val of Dep Deduct		0	0
TPI	1.020408	1	0.98
Capital Stock Quantity: K(t)	983,146	1,000,000	1,017,551

*Service Flow Calculation	Base Period	Period 1
Tax Factor (1)	1.538462	1.538462
Return (2)	112,861	112,500
V of D on replacement (3)	108,146	107,800
Capital Gain (4)	(20,064)	(20,000)
(1)*[(2)+(3)-(4)]	370,879	369,692
Property TAX	0	0
Total Implicit Rental Payment	370,879	369,692

Step 8. Implicit Rental Payment Calculation
Tax Factor = 1/(1-.35)
Return = r(t)*TPI(t-1)*K(t-1)
V of D on replacement = Depreciation Rate*TPI(t)*K(t-1)
Capital Gain = (TPI(t)-TPI(t-1))*K(t-1)

Capital Input Shares	Period -1	Base Period	Period 1
Share		1	1
Average Share			1

Step 9. Calculate shares

	Base Period	Period 1
Aggregate Capital Input Growth		1.70%
Capital Index	1	1.017143
Capital Index % Change		1.70%

Step 10. Tornquist aggregation
Step 11. In period (1), the capital index is 1 * exp(aggregate capital input growth in period (1)) .
Step 12. In period (1), the rate of growth of the capital index
is ln(capital index in period (1)/ capital index in period (0))

TFP

	Base Period	Period 1
Output Index % Change		4.11%
Input Index % Change		1.70%
TFP %Change		2.41%

Step 13. TFP growth = output index growth - input index growth.

	Base Period	Period 1
Total Cost	$370,879	$369,692
Total Cost % Change		-0.32%
Input Price Rate of Growth		-2.02%

Step 14. Total cost is total implicit rental payments.
Step 15. Total Cost growth = ln(Cost(1)/Cost(0))
Step 16. Input Price Growth = Total Cost growth - capital index growth.